CalPERS

FAST FACTS

Pension Debate: The Myths and Realities of Defined Benefit and Defined Contribution Plans

January 2005

A Defined Contribution Plan Would Not Solve The State's Fiscal Problems

- Costs of the current defined benefit plan won't go away. The State will have to pay for the start-up cost of the new defined contribution (DC) plan and still have to fund the current defined benefit (DB) plan.
- The State would also have to pay for death and disability benefit programs and social security for employees not covered under defined contribution plans.
- If defined contribution proceeds fall short of basic retirement income needed, the State will end up paying more in public assistance when employees are old, ill and infirm.

Defined Contribution Plans Don't Cost Less, They Cost More

- Dollar for dollar, defined contribution plans cost more. Costs to administer a defined benefit plan is less than 2/10 of one percent or 18 cents per $100 invested, compared to as much as 2 percent of assets or $1.35 per $100 invested in a defined contribution plan.

Defined Contribution Plans Threaten Employee Retirement Security

- Retirement benefits in a defined contribution plan are riskier. Employees would be asked to roll the dice and there is a high chance that the benefits would be inadequate.
- Employees could outlive their retirement assets in a DC plan.
- DC plans do not factor in inflation protection, or have disability and death benefits.
- Employees take all the risk in defined contribution plans.
- The state of Nebraska terminated their defined contribution plan after studies showed inferior returns -- 4 percent compared to 6-7 percent under a defined benefit plan -- and poor active participation by employers.

Defined Contribution Plans Will Cause A Deterioration in Public Service and Will Hamper Recruitment Retention and Make the State Attract Less Capable, Not More Capable Work Force

- Defined benefit plans help recruit skilled and talented workers. Retirement makes up for lower wages than in the private sector.
- Defined contribution plans would encourage older, more expensive workers to work longer, rather than retire.
- Market timing would determine retirement trends, not age.
- The State has a hard time recruiting scientist, doctors, nurses, information technology workers, accountants and other classes of workers. This will make it worse.

Eliminating The Public Pension Systems Would Cripple an Enormous Economic Engine for California.

- CalPERS invests more than $19.7 billion in California.
- The investment helps to build thousands of homes in California, create jobs, services, and revitalize urban neighborhoods.
- CalPERS invests $10.7 billion in California based companies – from blue chip corporations on the New York Stock Exchange to start-up firms in south central Los Angeles and the Silicon Valley.
- Capital to finance corporate growth would dry up. CalPERS holds $2.4 billion in fixed income investments, including corporate bonds, that enable corporate expansion.
- CalPERS invests $6.4 billion in real estate, including senior housing, urban redevelopment and quality retail centers.
- CalPERS is also one of the largest real estate developers, financing more than $2 billion worth of single family homes. These pension dollars have financed the building of more than 43,000 homes, developed 33,000 lots for single family homes, and provided $13.8 billion in mortgages for nearly 100,000 California families.

The Plan Will Help and Hurt the Wrong People.

- Wall Street firms make money even when members lose in DC plan.
- Many people would rather have investment managers within public service manage the assets rather than mutual funds whose goal is to make profits for itself.
- DC plans prevent participation in the full range of investments such as real estate and private equity investments, which is important to have in a sound diversified portfolio.